

INTERNAL CONTROLS BULLETIN

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Management Monitoring – The First Line of Defense

When umpires are behind home plate in a baseball game, their eyes are working all the time. Was that a strike or a ball? Was the hit fair or foul? There is incredible attention to detail and a laser focus on the task at hand. There are a number of umpires in each game in major league baseball, including base umpires and a crew chief. The crew chief generally directs the work of the other umpires on the crew, with particular emphasis on uniformity in dealing with unique situations; ensuring the timely filing of all required crew reports for incidents such as ejections, brawls and protested games; and reporting irregularities in field conditions at the ballpark.

In the third part of our monitoring series, we focus on management (or functional) monitoring. This is the first line of defense in an internal control system, because it is implemented by management who owns the business processes and internal controls. Similar to a baseball game, there are usually many functions in an organization that need to be monitored and many individuals responsible for keeping their eyes on the ball.

Management monitoring can take many forms. Reviews, approvals, and paying attention to selected performance measures and asking meaningful questions are just a few of these monitoring activities. It makes sense to call these activities the first line of defense because they usually happen quickly and close to the function being performed to catch any problems before they escalate into something bigger.

Meaningful management reviews help to:

- Identify and correct internal control problems on a timely basis
- Produce more accurate and reliable information for use in decision making
- Prepare accurate and timely financial statements and other reports
- Understand how well the organization is performing in relation to its goals and objectives

Examples of management monitoring include:

- Comparing budgeted to actual expenditures and investigating unexpected differences
- Reviewing all expenditures over a certain dollar amount and comparing them to source documentation
- Identifying payments to new or unfamiliar vendors and scrutinizing them for reasonableness
- Preparing independent reconciliations of receipts activity to bank statement deposits
- Looking at the results of key performance measures to catch problems, analyzing why a process is not working as expected, and correcting the problem

Good monitoring helps you keep your eye on the ball in your internal control system. You're sure to hit a home run!

Questions?

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